



## **FORTY-SEVENTH ANNUAL REPORT**

**FISCAL YEAR 2002-2003**

### **POOLED MONEY**

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### **INVESTMENT**

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### **BOARD**

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**PHIL ANGELIDES**  
State Treasurer and Chairman

# Preface

## *Pooled Money Investment Board*

The Pooled Money Investment Board, created by the Legislature in 1955, is comprised of the State Treasurer, as chairman; the State Controller and the Director of Finance. At the end of fiscal year 2002-03, the members were Phil Angelides, Treasurer; Steve Westly, Controller; Steve Peace, Director of Finance. At the time of the report the Director of Finance is now Donna Arduin.

The purpose of the Board is to design an effective cash management and investment program, using all monies flowing through the Treasurer's bank accounts and keeping all available funds invested consistent with the goals of safety, liquidity and yield.

The law restricts the Treasurer to investments in the following categories: U.S. government securities, securities of federally-sponsored agencies, domestic corporate bonds, interest-bearing time deposits in California banks and savings and loan associations, prime-rated commercial paper, repurchase and reverse repurchase agreements, security loans, banker's acceptances, negotiable certificates of deposit and loans to various bond funds. Subsequent sections of this report deal individually with the demand account and investment programs for which the Board has oversight responsibilities, and which the Treasurer directly administers.

During the 2002-03 fiscal year, program earnings totaled \$1.133 billion. Approximately \$458 million of this amount was credited to units of local government as a result of their deposits in our investment pool. This level of voluntary participation, which averaged \$21.118 billion, reflects the confidence they have in our investment management capabilities. The magnitude of these investment earnings provide a significant reduction in the tax burden that otherwise would have been imposed on the citizens of California.

# ***Pooled Money Investment Board***

## ***Forty-seventh Annual Report***

### ***Fiscal Year 2002-2003***

#### ***Table of Contents***

	<b>Page</b>
 <b>POOLED MONEY INVESTMENT BOARD (PMIB)</b>	
Preface.....	i
 <b>OVERVIEW</b>	
The Year in Review .....	1
Investment Activity FY 1994 through 2003 .....	1
2002-03 Investment Market Conditions & Monthly Yields .....	2
Comparison of the Portfolio and Earnings FY 1993 through 2003 .....	3
 <b>POOLED MONEY INVESTMENT ACCOUNT (PMIA)</b>	
Summary Statistics.....	4
Demand Account Program.....	5
Rate Schedule for Banking Service.....	6
Average Daily Balance in Demand Bank Accounts .....	7
Investment Program .....	8
Schedule of Security Purchases - by Term .....	9
Analysis of the Portfolio .....	9
Time Deposits by Month End .....	10
Summary of Investments and Earnings .....	11-12
Financial Community Coverage .....	13
 <b>SURPLUS MONEY INVESTMENT FUND (SMIF)</b>	
Program Summary .....	14
Earnings for 2002-03 .....	14
Participation .....	15
The Year in Review .....	15
Resources of the SMIF .....	16
 <b>LOCAL AGENCY INVESTMENT FUND (LAIF)</b>	
Program Summary .....	17
Earnings for 2002-03 .....	17
Participation .....	17
The Year in Review .....	17
Resources of the LAIF .....	18
 <b>Appendix A - PMIA Summary of Investments and Earnings, 1957 through 2003 .....</b>	
Note To PMIA Summary of Investments and Earnings .....	20
<b>Appendix B - Historical PMIA Yields.....</b>	<b>21-30</b>

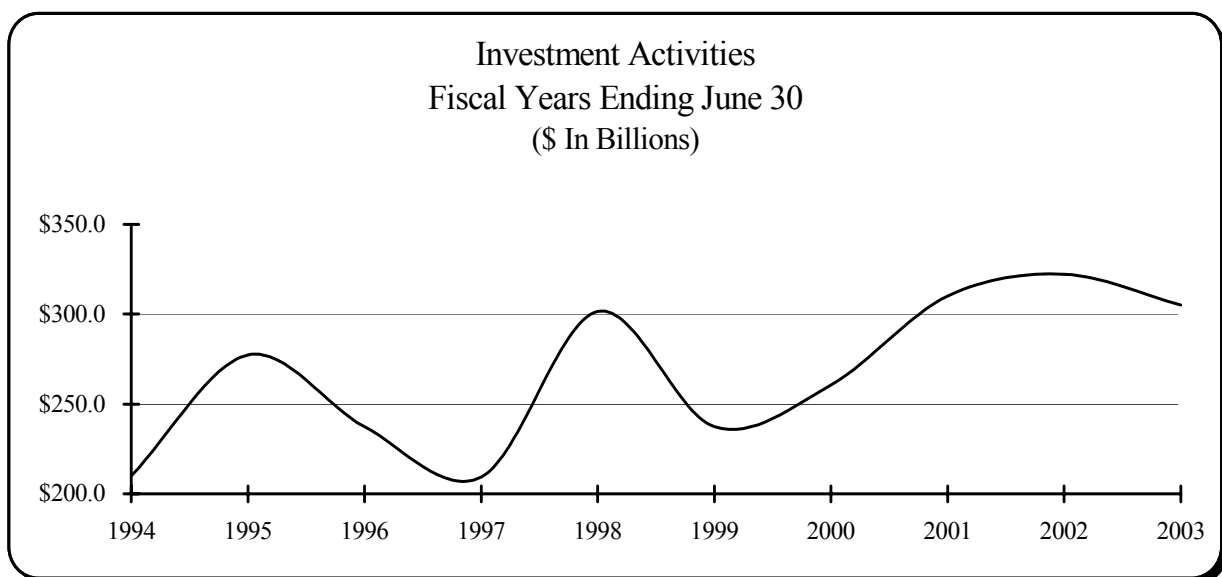
# Overview

## The Year in Review

Average Daily Portfolio .....	\$52,636,647,903
Earnings .....	\$1,132,930,218
Effective Yield .....	2.15%

## Investment Activity for the Fiscal Years Ending June 30 (\$ In Billions)

Fiscal Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Amount</b>	\$210.1	\$277.4	\$237.4	\$209.3	\$301.6	\$237.3	\$260.6	\$310.2	\$322.3	\$305.1
<b>Transactions</b>	5,169	6,351	5,721	5,120	7,108	5,804	6,447	7,889	8,025	7,524



Source: State Treasurer's Office, Division of Investments

# 2002-03 Investment Market Conditions

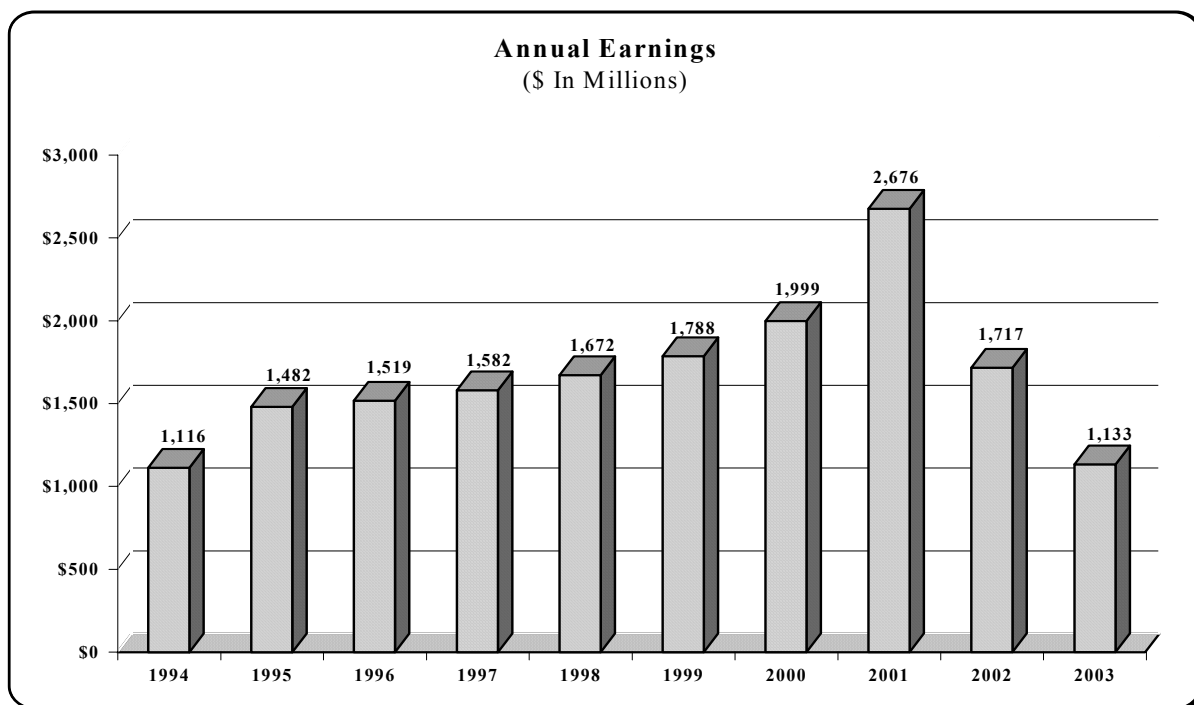
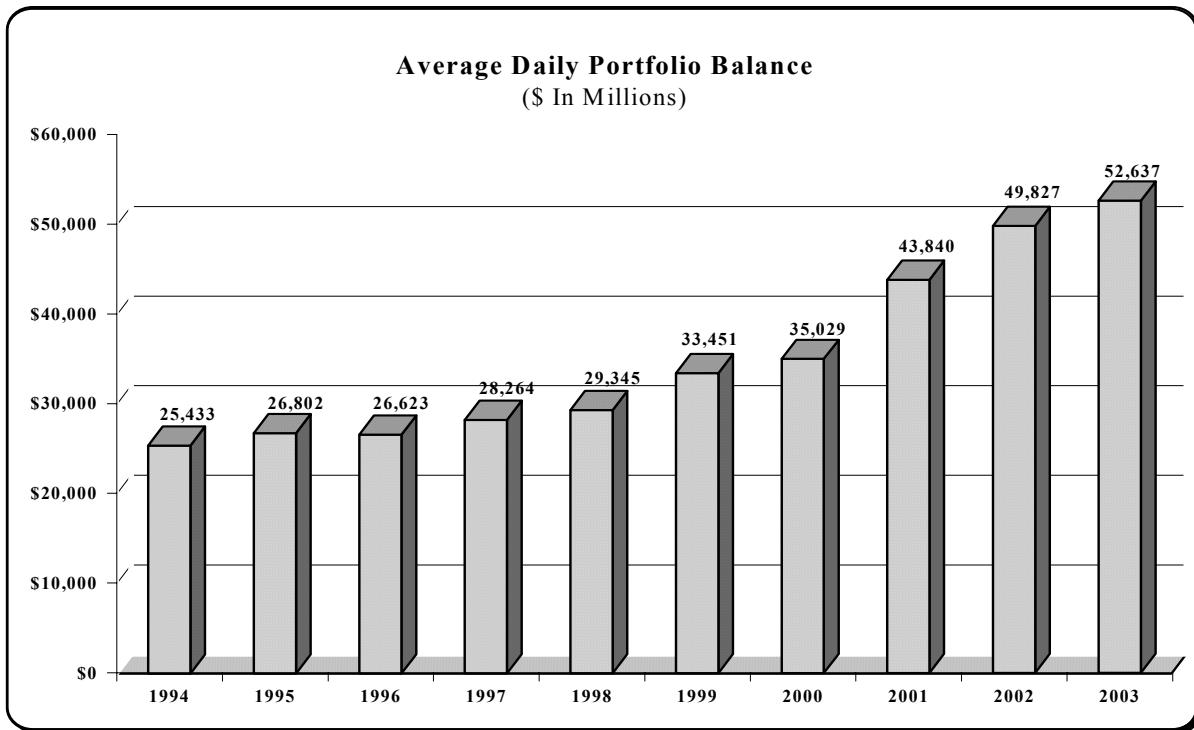
To indicate prevailing market conditions during the 2002-03 fiscal year, the following table shows monthly money market rates, as computed from daily closing bid prices. The information was obtained from Federal Reserve Bulletins published by the Board of Governors, Federal Reserve System, and the Bureau of Public Debt.

## Monthly Yield on Money Market Securities (Yield in Percent Per Annum)

Month	Federal Funds	3-Month Treasury Bills	90-Day Finance Company Commercial Paper	90-Day Certificate of Deposits	6-Month Treasury Bills	1-Year Treasury Bills	3-Year Treasury Issues
July 2002	1.73	1.68	1.76	1.79	1.70	1.96	3.01
August	1.74	1.62	1.71	1.73	1.60	1.76	2.52
September	1.75	1.63	1.74	1.76	1.61	1.72	2.32
October	1.75	1.61	1.71	1.73	1.59	1.65	2.25
November	1.34	1.26	1.37	1.39	1.28	1.49	2.32
December	1.24	1.20	1.32	1.34	1.26	1.45	2.23
January 2003	1.24	1.17	1.27	1.29	1.21	1.36	2.18
February	1.26	1.16	1.25	1.27	1.18	1.30	2.05
March	1.25	1.13	1.21	1.23	1.12	1.24	1.98
April	1.26	1.15	1.23	1.24	1.16	1.27	2.06
May	1.26	1.07	1.20	1.22	1.08	1.18	1.75
June	1.22	0.94	1.02	1.04	0.94	1.01	1.51
2002-2003 Average	1.42	1.30	1.40	1.42	1.31	1.45	2.18
2001-2002 Average	2.28	2.16	2.23	2.26	2.23	2.55	3.69
Increase-(Decrease)	-0.86	-0.86	-0.83	-0.84	-0.92	-1.10	-1.51

Note: 3 - 6-month Treasury Issues and 90-day Commercial Paper are quoted on a discount basis, 1 - 3-year Treasury Issues are quoted on a constant maturity basis.

# Comparison of Portfolio Balance and Earnings for Fiscal Years Ending June 30, 1994 through 2003



Source: State Treasurer's Office, Division of Investment

## Summary Statistics

Resources .....	\$	53,616.1	million per day on the average
Demand Accounts.....	\$	979.5	million per day on the average
Portfolio.....	\$	52,636.6	million per day on the average
Earnings .....	\$	1,013.3	million from security investments
		84.3	million from bank time deposits
		35.4	million from General Fund loans
Earning Rate .....		2.15	percent average for all investments
Dollar Value of Investment Transactions .....	\$	305.1	billion
Number of Investment Transactions .....		7,524	transactions
Time Deposits .....		113	banks, credit unions and savings banks held PMIA money at year-end

Source: State Treasurer's Office, Division of Investment

Resources of the Pooled Money Investment Account averaged \$53,616,101,903 per day during the fiscal year although the daily figures fluctuated widely with receipts and disbursements. The high point for the year occurred on June 19, 2003, when the total reached \$73,481,417,950. Resources for the account were lowest on October 11, 2002, when balances totaled \$43,053,655,611.

A breakdown of an average day's resources during the fiscal year shows the following: \$979.5 million in non-interest-bearing bank accounts; \$47.324 billion in securities and General Fund Loans; and \$5.313 billion in interest-bearing time deposits.

On the closing day of the fiscal year, the following resources were on hand in the Pooled Money Investment Account:

Demand bank account	\$ 1,577,066,954
Time bank account	5,575,095,000
Securities	<u>49,847,411,109</u>
<b>Total Resources</b>	<b>\$56,999,573,063</b>

## ***Demand Account Program***

Investments of the PMIA are made from monies flowing through the Treasurer's demand (non-interest-bearing) bank accounts maintained in the seven banks that serve as State depositories. Currently, the seven depository banks are: Bank of America, California Bank & Trust, Union Bank of California, Bank of the West, U.S. Bank, Wells Fargo Bank and Westamerica Bank. A small portion of these funds must remain in the accounts as compensating balances which consist of (1) a balance for uncollected funds and (2) a balance for banking services. Uncollected funds represent the total dollar amount of checks deposited by the State for which the banks give immediate credit, but for which they do not receive good funds until these checks are presented to the banks on which they are drawn. The State allows the banks an average balance for uncollected funds equivalent to 1.3 calendar days on all checks deposited other than cashier's checks and checks under the presort of deposit system.

Under the presort of deposit system, the major revenue collecting agencies sort their checks by the seven State depository banks and then deposit them directly in the banks on which they are drawn, thus avoiding the need for providing bank balances for uncollected funds. The remaining checks are deposited under a contract whereby the depository bank receives bank balances equivalent to 1.345 calendar days for the amount of such deposits.

The balances allowed for banking services represent compensation for handling 399,282 deposits, 53.7 million checks deposited, 334,930 dishonored checks, \$713 million in currency deposited, \$10.3 million in coin deposited, 122.3 million warrants and 1,271 checks paid.

All amounts in excess of these compensating balances are promptly invested by the Treasurer. Intensive and expert analysis of receipts and disbursement data is used daily to estimate the State's rapidly shifting cash position in order to determine exactly how much money is available for investment. This results in maximum earnings consistent with prudent management.

Compensating balances are determined by a formula, which accounts for the estimated volume of each service item as well as its unit cost. The rate schedule for the compensating balance formula is determined through annual negotiations with the State's depository banks and the cost for any particular service may be raised or lowered as conditions warrant. Adjustments for the difference between actual and estimated work load for any fiscal year are made in the following fiscal year. The State made no changes in the rate schedule for banking services for the 2002-03 fiscal year. In addition to the rates shown below, the State agreed to include the costs of account reconciliation and electronic funds transfer services within the compensating balance formula starting in the 1991-92 fiscal year.



The costs for these two services are paid (with balances) on a lagged, actual basis when billed by each bank. The banks were subject to the following rate schedule for the 2002-03 fiscal year:

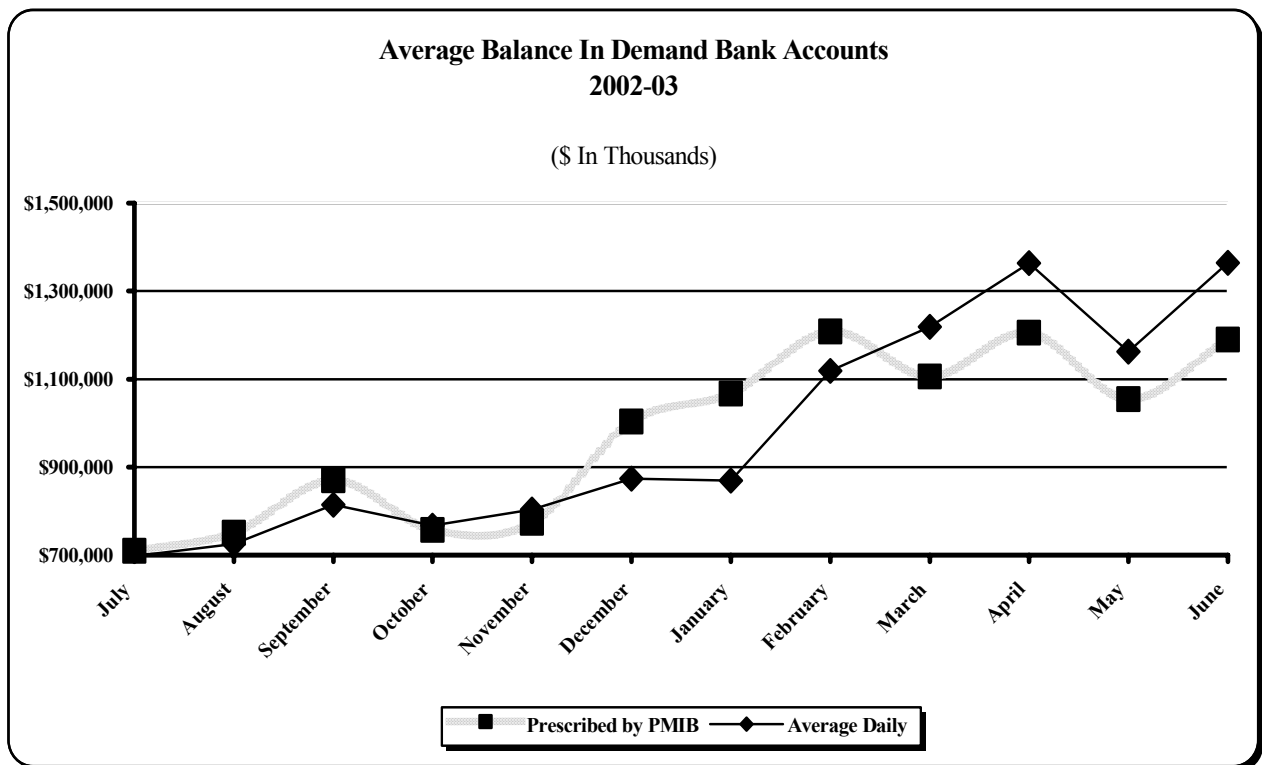
## **Rate Schedule For Banking Services 2002-03 Fiscal Year**

Encoded Checks Deposited	
"On Us".....	\$ 0.040
"Other".....	0.053
Non-Encoded Checks Deposited.....	0.090
Warrants Paid.....	0.010
Checks Paid.....	0.120
Dishonored Checks.....	2.750
Deposits.....	1.400
Split Bags Deposits.....	0.550
Coin Deposited.....	11.00 per thousand
Currency Deposited.....	1.05 per thousand
Account Maintenance.....	15.00 per month
Daily Statements.....	6.00 per statement

Source: State Treasurer's Office, Division of Cash Management

# Average Daily Balance in Demand Bank Accounts 2002-03 (\$ In Thousands)

Month	Bank Balance Required for Banking Services	Bank Balance Required for Uncollected Funds	Less Net Delayed Deposit Credit	Bank Balance Prescribed by PMIB	Actual Average Daily Bank Balance
July 2002	\$602,013	\$114,830	\$6,883	\$709,960	\$698,016
August	600,897	159,822	9,821	750,898	725,079
September	694,877	181,765	6,336	870,306	814,726
October	646,990	117,339	7,326	757,002	766,880
November	629,370	158,299	13,897	773,772	804,020
December	861,486	151,660	9,874	1,003,272	873,898
January 2003	859,890	215,613	8,435	1,067,069	869,591
February	949,856	267,594	8,838	1,208,612	1,118,834
March	1,008,445	102,845	5,460	1,105,830	1,219,156
April	921,914	292,601	9,077	1,205,438	1,363,548
May	863,394	184,495	-6,721	1,054,611	1,162,359
June	1,018,518	176,128	4,657	1,189,989	1,364,677
Weighted Average	\$803,487	\$175,894	\$6,959	\$972,422	\$979,454



Source: State Treasurer's Office, Division of Cash Management

## *Investment Program*

Although the Pooled Money Investment Board designates how much shall be invested in interest-bearing time accounts in California banks and savings and loan associations, and in securities, it is the responsibility of the State Treasurer to administer the investment program on a day-to-day basis in line with overall Board policy. This entails a daily determination of amounts available for investment, or the need for liquidating securities to meet estimated warrant redemption requirements, while maintaining the approved compensating balance position. This means that the State Treasurer must continually adjust the estimates for receipts and disbursements to reflect current available information.

For the 2002-03 fiscal year, investments in time deposits ranged from \$5,045,790,000 to \$5,577,095,000 and averaged \$5,313,014,712. There were 1,519 transactions totaling \$27,304,070,000 during the year. Commercial banks, savings banks and credit unions receiving these State deposits must secure them with approved securities having a market value of at least 110 percent of the deposits or with approved promissory notes secured by mortgages or deeds of trust having a market value of at least 150 percent of the deposits. The same collateral requirements also apply to the State's demand accounts. At the end of fiscal year 2002-03, interest-bearing time deposits were held by 84 commercial banks, 13 credit unions and 16 savings banks throughout California. For the fiscal year, PMIA holdings in time deposits had an average yield of 1.59 percent.

The amount of money designated by the Board for investment in securities varies dramatically throughout the year. Such designations are made at least monthly, and again, the State Treasurer handles the actual investments, determining the issue and maturity of authorized securities to be bought or sold in accordance with cash needs and both current and projected market conditions. During fiscal year 2002-03, there were 3,062 security purchase transactions and 2,943 security sales or redemption transactions, with a total investment activity of \$277.8 billion.

Total earnings for the Pooled Money Investment Account in fiscal year 2002-03 were \$1,132,930,218. These earnings were credited as follows:

General Fund	\$191,430,121
Fish and Game Preservation Fund	\$ 399,969
Surplus Money Investment Fund	\$481,078,130
Local Agency Investment Fund	\$457,631,808
Public Employee's Retirement Fund	\$ 1,392,519
State Teacher's Retirement Fund	\$ 997,671

Earnings consisted of \$1,013,254,145 from security investments at an average 2.22 percent yield, \$84,296,101 from time deposits at an average 1.59 percent yield and \$35,379,971 from General Fund loans at an average 2.11 percent yield. The overall return on investment was 2.15 percent.

The portfolio holdings of the Pooled Money Investment Account for the 2002-03 fiscal year are illustrated in the following tables:

**Schedule of Security Purchases by Term**  
**2002-03 Fiscal Year**  
(At Cost - \$ In Thousands)

<b>Month</b>	<b>Under 10 Days</b>	<b>10-29 Days</b>	<b>30-89 Days</b>	<b>90 Days- 1 Year</b>	<b>1 - 3 Years</b>	<b>Over 3 Years</b>	<b>TOTALS</b>
July 2002	\$1,179,530	\$1,267,591	\$1,936,991	\$199,270	\$36,435	\$36,783	\$ 4,656,600
August	1,785,087	1,290,414	3,219,246	1,609,634	33,424	41,709	7,979,514
September	781,110	1,558,099	3,106,293	572,014	16,991	33,626	6,068,133
October	3,180,945	1,391,784	5,980,566	8,143,393	43,155	254,668	18,994,511
November	1,054,630	1,539,246	2,784,191	9,995,800	1,080,476	121,500	16,575,843
December	2,684,707	1,791,299	2,548,373	4,160,707	245,726	33,574	11,464,386
January 2003	1,009,879	246,518	1,845,524	8,005,230	18,991	15,045	11,141,187
February	2,811,586	1,772,453	1,228,120	2,811,586	103,423	14,260	8,741,428
March	2,626,811	1,475,165	2,245,880	294,024	47,864	4,935	6,694,679
April	1,660,226	2,133,824	6,709,829	3,008,740	22,466	19,742	13,554,827
May	2,568,664	1,436,849	3,732,142	876,379	1,269,163	24,028	9,907,225
June	1,231,691	2,740,592	7,753,221	10,315,127	3,018,350	521,200	25,580,181
<b>Total</b>	<b>\$22,574,866</b>	<b>\$18,643,834</b>	<b>\$43,090,376</b>	<b>\$49,991,904</b>	<b>\$5,936,464</b>	<b>\$1,121,070</b>	<b>\$141,358,514</b>
<b>Percent</b>	<b>15.97%</b>	<b>13.19%</b>	<b>30.48%</b>	<b>35.37%</b>	<b>4.20%</b>	<b>0.79%</b>	<b>100.00%</b>

Source: State Treasurer's Office, Division of Investments

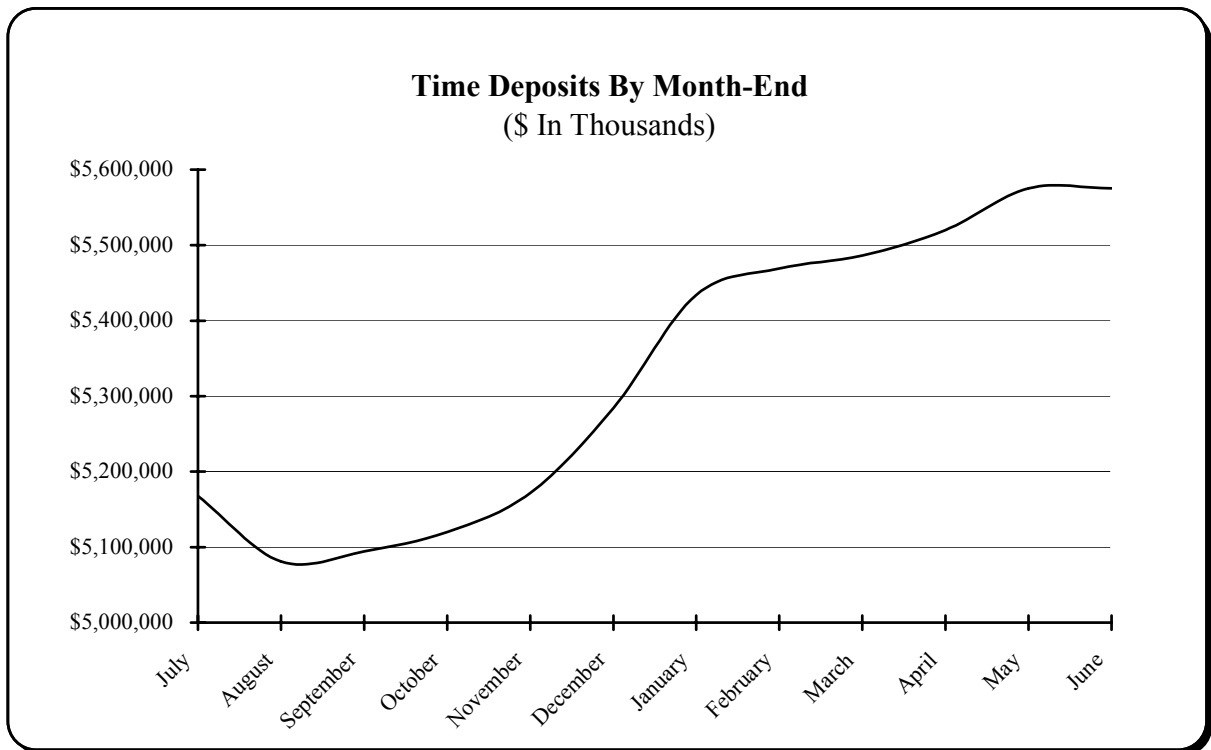
**Analysis of Portfolio**  
**2002-03 Fiscal Year**

<b>Type Of Security</b>	<b>Average Daily Portfolio</b>	<b>Percent Of Portfolio</b>	<b>Earnings For Year</b>	<b>Effective Percentage Yield For Year</b>	<b>Average Portfolio Life on 6/30/03 (In Days)</b>	<b>Percent Of Portfolio On 6/30/03</b>
U.S. Treasury Bills/Strips	\$839,032,383	1.59	\$12,831,617	1.53	132	2.88
U.S. Treasury Bonds & Notes	6,436,185,173	12.23	216,821,993	3.37	466	15.00
Federal Agency Cpn Securities	4,177,431,296	7.94	164,315,378	3.93	639	8.40
Federal Agency Discount Notes	7,676,817,371	14.58	114,941,725	1.50	138	15.23
GNMA	674,908	0.00	80,333	11.90	4,381	0.00
FHLMC	6,046,915	0.01	583,124	9.64	4,381	0.01
Negotiable CDs	8,994,926,405	17.09	139,302,589	1.55	72	10.54
Time Deposits	5,313,014,712	10.09	84,296,101	1.59	67	10.06
Bankers Acceptances	0	0.00	0	0.00	0	0.00
Commercial Paper	11,433,556,267	21.72	183,628,143	1.61	38	25.31
Corporate Bonds	2,193,113,396	4.17	86,269,792	3.93	537	4.04
Repurchase Agreements	18,947,945	0.04	271,254	1.43	29	0.00
Reverse Repurchase Agreements	(50,564,033)	-0.10	(777,201)	1.54	88	0.00
AB 55 Loans	3,918,799,247	7.45	94,985,399	2.42	243	8.54
General Fund Loans	1,678,665,918	3.19	35,379,971	2.11	186	0.00
<b>Total Portfolio</b>	<b>\$52,636,647,903</b>	<b>100%</b>	<b>\$1,132,930,218</b>	<b>2.15%</b>	<b>212</b>	<b>100%</b>

Source: State Treasurer's Office, Division of Investments

## Time Deposits by Month-End 2002-03 Fiscal Year

Month	Total
July 2002.....	\$ 5,167,695,000
August.....	5,080,790,000
September.....	5,094,290,000
October.....	5,120,290,000
November.....	5,171,695,000
December.....	5,284,195,000
January 2003.....	5,434,095,000
February.....	5,469,095,000
March.....	5,486,095,000
April.....	5,520,095,000
May.....	5,575,095,000
June.....	5,575,095,000



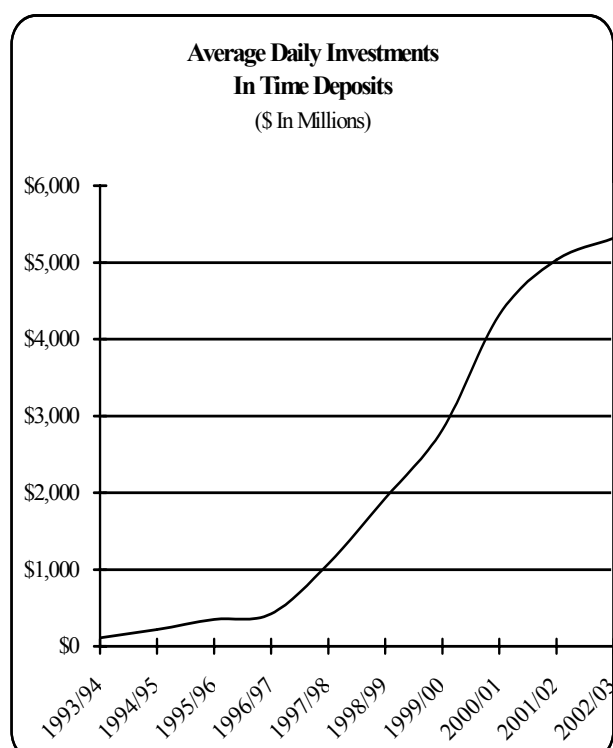
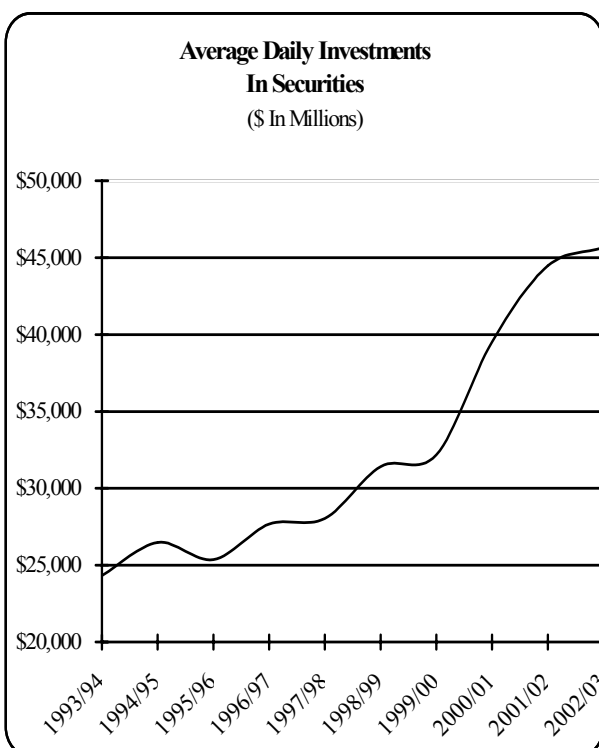
Source: State Treasurer's Office, Division of Investments

# Summary of Investments and Earnings

## Fiscal Years Ending June 30, 1994 through 2003

(\$ In Thousands)

Investment in Securities				Investment in Time Deposits			
Fiscal Year	Average Daily		Earnings Rate (%)	Fiscal Year	Average Daily		Earnings Rate (%)
	Investment	Earnings			Investment	Earnings	
1993-94	24,322,849	1,068,915	4.39	1993-94	107,647	3,700	3.44
1994-95	26,468,520	1,465,018	5.54	1994-95	217,522	12,218	5.62
1995-96	25,362,783	1,448,002	5.71	1995-96	351,060	19,416	5.53
1996-97	27,674,553	1,550,599	5.60	1996-97	419,648	22,376	5.33
1997-98	28,034,192	1,601,603	5.71	1997-98	1,076,268	57,452	5.34
1998-99	31,409,593	1,688,570	5.38	1998-99	1,928,600	93,095	4.83
1999-00	32,177,870	1,845,503	5.74	1999-00	2,820,736	152,310	5.40
2000-01	39,522,485	2,424,943	6.14	2000-01	4,317,936	251,215	5.82
2001-02	44,467,159	1,563,523	3.52	2001-02	5,031,747	143,920	2.86
2002-03	45,644,967	1,013,254	2.22	2002-03	5,313,015	84,296	1.59



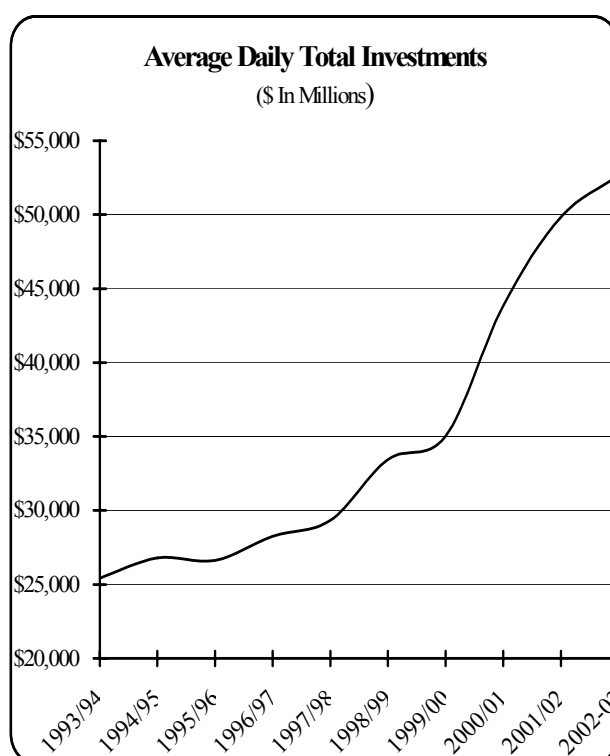
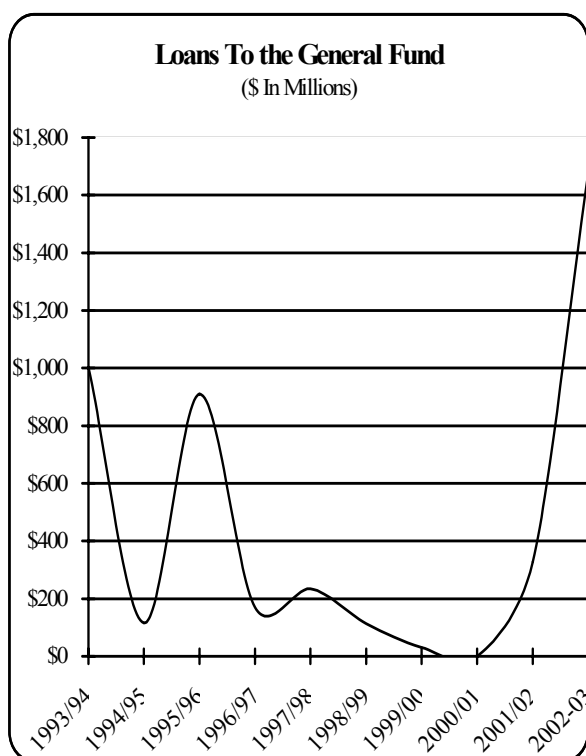
Source: State Treasurer's Office, Division of Investments

# Summary of Investments and Earnings

## Fiscal Years Ending June 30, 1994 through 2003

(\$ In Thousands)

Loans to General Fund				Total Investments			
Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)	Fiscal Year	Average Daily Investment	Earnings	Earnings Rate (%)
1993-94	1,002,582	43,045	4.29	1993-94	25,433,078	1,115,660	4.39
1994-95	116,081	5,338	4.60	1994-95	26,802,123	1,482,574	5.53
1995-96	909,353	51,602	5.67	1995-96	26,623,196	1,519,020	5.71
1996-97	169,868	9,468	5.57	1996-97	28,264,069	1,582,443	5.60
1997-98	234,052	13,327	5.69	1997-98	29,344,512	1,672,382	5.70
1998-99	112,895	6,099	5.40	1998-99	33,451,088	1,787,764	5.34
1999-00	30,428	1,670	5.49	1999-00	35,029,034	1,999,483	5.71
2000-01	-	-	-	2000-01	43,840,421	2,676,158	6.10
2001-02	328,171	9,102	2.77	2001-02	49,827,077	1,716,545	3.45
2002-03	1,678,666	35,380	2.11	2002-03	52,636,648	1,132,930	2.15



Source: State Treasurer's Office, Division of Investments

# *Financial Community Coverage*

The following firms conducted investment transactions with the State Treasurer's Office  
During the 2002-03 Fiscal Year.

A.G. Edwards and Sons, Inc.	First California Bank	Peninsula Bank of Commerce
American California Bank	First Coastal Bank	Peoples Community Partnership FCU
American Express Credit Corp.	First Fidelity Investment and Loan	PFF Bank and Trust
American River Bank	First Future Credit Union	Pomona First Federal Trust Bank
Banc of America Securities LLC	First Matrix Investment Services Corp.	Preferred Bank
Banc One Capital Markets, Inc.	First State Bank of California	Provident Central Credit Union
Bank of Canton of California	First United Bank	Provident Savings Bank
Bank of East Asia (USA)	Five Star Bank	Pryor, Counts and Company
Bank of Lodi	Ford Motor Financial Services, Inc.	Quaker City Bank
Bank of Montreal	Fullerton Community Bank, FSB	Redwood Securities Group, Inc.
Bank of Nova Scotia/Scotia Capital Markets	Garban Capital Markets	River City Bank
Bank of Petaluma	General Electric Capital Corporation	Robert Van Securities Inc.
Bank of Sacramento	General Motors Acceptance Corp.	Sae Han Bank
Bank of Santa Clara	Golden 1 Credit Union	SAFE Credit Union
Bank of the Sierra	Golden Gate Bank	Salomon Smith Barney
Bank of the West	Goldman Sachs & Company	San Jose National Bank
Bay Area Bank	Grand National Bank	San Luis Trust Bank
Bay Bank of Commerce	Hacienda Bank	Sandler O'Neill and Partners, L.P.
Bear Stearns and Company, Inc.	Hanmi Bank	Santa Clara County Federal Credit Union
Broadway Federal Bank, FSB	Hawthorne Savings, FSB	Sears Roebuck Acceptance Corp.
Business Bank of California	Heritage Bank of Commerce	Service 1st Bank
Cal State 9 Credit Union	Household Finance Corp.	Signature Securities
California Center Bank	HypoVereinsBank	Silvergate Bank
California Chohung Bank	J.P.Morgan Securities, Inc.	Societe Generale
California Federal Bank	Jackson Federal Bank	South Bay Bank, NA
Cantor Fitzgerald and Company	Kaplan and Company Securities, Inc.	Stone Youngberg LLC
Cathay Bank	La Jolla Bank, FSB	Sunwest Bank
Cedars Bank	Lake Community Bank	The California Credit Union
Center Bank	Lehman Brothers Holdings, Inc.	The Mechanics Bank
Central California Bank	Loop Capital Markets, LLC	Trans Pacific National Bank
Chapman Company	Malaga Bank, SSB	Travis Credit Union
China Trust Bank (USA)	Manufacturers Bank	Tri Counties Bank
CIBC/CIBC Oppenheimer	Marathon National Bank	Trust Bank
CitiBank FSB	Mellon 1st Business Bank	U.S. Bank, NA
Citigroup Global Markets Inc	Merchants National Bank of Sacramento	U.S.Bancorp Piper Jaffray
Citigroup Securities	Meriwest Credit Union	UBS Warburg, LLC
Citizens Business Bank	Merrill Lynch Capital Markets	Union Bank of California
City National Bank	Mesirow Financial Inc.	Union Safe Deposit Bank
Coast Commercial Bank	Metropolitan Bank	United California Bank
Coastal Securities	MFR Securities, Inc.	United Commercial Bank
Comerica Bank California	Mid Peninsula Bank	United Security Bank
Commercial Capital Bank	Mid State Bank and Trust	Valencia Bank and Trust
CommerzBank	Mission Community Bank	Valley Community Bank
Community Bank	Mizuho Securities USA Inc.	Valley First Credit Union
Community Bank of Central California	Monterey Bay Bank	Valley Independent Bank
Constitution Capital Corporation	Morgan Stanley and Company	Verdugo Banking Company
County Bank	Mount Diablo National Bank	Vining Sparks
Credit Agricole Indosuez	Nara Bank, NA	Wachovia Corporation
Credit Suisse First Boston Corp.	National Bank of the Redwoods	Washington Mutual Bank, FA
Cupertino National Bank and Trust	Neighborhood National Bank	Wells Fargo Institutional Securities LLC
D.A.Davidson and Company	North Coast Bank	Wescom Credit Union
Delta National Bank	North Island Federal Credit Union	WestAmerica Bank
East West Bank	North State National Bank	Western Sierra National Bank
Eastern International Bank	North Valley Bank	Western Federal Credit Union
EBTEL Federal Credit Union	Oak Valley Community Bank	Williams Capital Group, L.P.
El Dorado Savings Bank	Oceanic Bank	Wilshire State Bank
EuroBrokers, Inc.	Omni Bank, NA	Xerox Federal Credit Union
EverTrust Bank	One United Bank	
Family Savings Bank	Operating Engineers Local #3 Federal Credit Union	
Farmers and Merchants Bank of Central California	Pacific Capital Bank, NA	
First Bank and Trust	Pacific State Bank	
First Bank of Beverly Hills, FSB	Pacific Union Bank	
First Bank San Luis Obispo	Pacific Western National Bank	



# **Surplus Money Investment Fund**

## **Program Summary**

The Surplus Money Investment Fund consists of the available cash of all special funds which do not have investment authority of their own, and all or a portion of the available cash of special funds having investment authority of their own, but which have elected to be included in the program. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer.

The Pooled Money Investment Board is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. This determination is performed operationally by the State Controller's Office by means of a continuing review of the cash balances of the participating funds.

As a result of these determinations, the State Controller prepares a document for the Pooled Money Investment Board's approval which authorizes the State Controller to increase or decrease the invested balances of the applicable funds.

All of the resources of the Surplus Money Investment Fund are invested through the Pooled Money Investment Account. Prior to the 1967-68 fiscal year, the Surplus Money Investment Fund was a separate investment program. In 1967, legislation was enacted (Chapter 505, Statutes 1967) which provided that money in the Surplus Money Investment Fund shall be invested through the Pooled Money Investment Account. This legislation further provided that the Surplus Money Investment Fund would share in the interest earnings of the Pooled Money Investment Account based on the ratio that the dollar-day contributions of the Surplus Money Investment Fund bear to the dollar-day investments of the Pooled Money Investment Account.

This legislation increased the potential investment earnings for both programs, since their high and low resource periods tend to complement each other. Consequently, under normal market conditions, more long-term, higher yielding securities may be purchased.

### **Earnings for 2002-03**

Gross earnings totaled \$481,078,130 for the 2002-03 fiscal year. This represents an earning rate of 2.14 percent for this investment program.

SMIF earnings are computed on a dollar-day basis to guarantee equitable distribution among all member funds. An apportionment of the earnings is made by the Controller twice yearly as of December 31 and June 30.

## Participation

There were over one thousand special funds and accounts participating in the Surplus Money Investment Fund as of the last day of the fiscal year, June 30, 2003. Their combined deposits totaled \$23,223,462,000.

Large contributors as of June 30, 2003 were the: Department of Water Resources Electric Power Fund, \$3,342,785,000; California Housing Finance Fund, \$1,397,992,000; State School Facilities Fund 2002, \$1,360,006,000; Public Buildings Construction Fund, \$1,306,040,000; Unemployment Compensation Disability Fund, \$825,968,000; Vets Farm/Home Building-1943 Fund, \$722,238,000; Special Deposit Fund, \$530,881,000; Public Employees' Retirement Fund, \$491,750,000; Transportation Revenue Account Fund, \$460,372,000.

## The Year in Review

Resources.....	\$ 22.513 billion per day on average
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Earnings.....	\$ 481.1 million
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Earning Rate.....	2.14 percent
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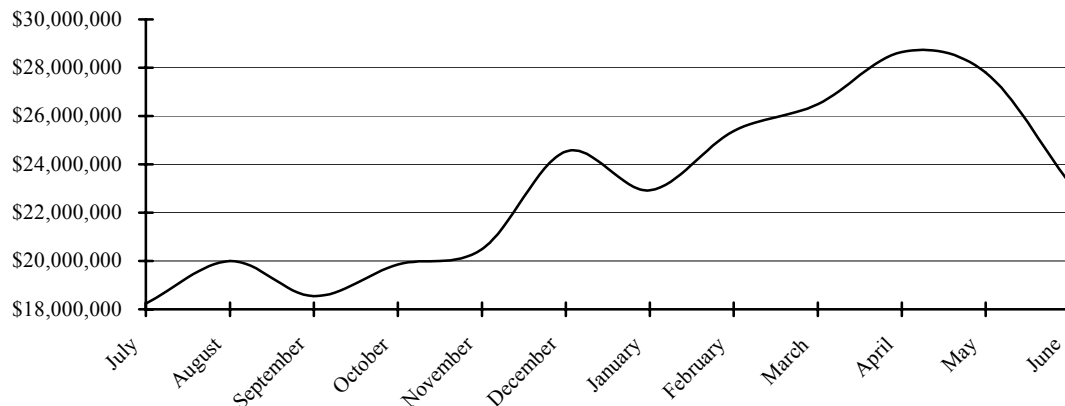
Source: State Treasurer's Office, Division of Cash Management

Monthly deposit balances are shown in the following table:

**Resources of  
The Surplus Money Investment Fund  
2002-03 Fiscal Year (Month-End Balances)**

<b>Month</b>	<b>Total</b>
July 2002.....	\$18,242,291,000
August.....	20,005,343,000
September.....	18,544,704,000
October.....	19,860,811,000
November.....	20,485,213,000
December.....	24,524,691,000
January 2003.....	22,932,798,000
February.....	25,380,867,000
March.....	26,495,576,600
April.....	28,652,303,000
May.....	27,803,576,000
June.....	23,223,462,000

**Resources of the Surplus Money Investment Fund  
2002-03  
Fiscal Year (Month-End Balances)  
(\$ In Thousands)**



Source: State Controller's Office, *Report of Cash Assets of all Funds in the State Treasury*

# Local Agency Investment Fund

## Program Summary

The Local Agency Investment Fund was established by Chapter 730, Statutes of 1976. This fund enables local governmental agencies or trustees to remit money not required for immediate needs to the State Treasurer for the purpose of investment. In order to derive the maximum rate of return possible, the State Treasurer has elected to invest these monies with State monies as a part of the Pooled Money Investment Account.

Each participating agency determines the length of time its money will be on deposit with the State Treasurer with the exception of bond proceeds, which must remain for a minimum of 30 days. At the end of each calendar quarter, all earnings derived from investments are distributed by the State Controller to the participating government agencies in proportion to each agency's respective amounts deposited in the Fund and the length of time such amounts remained therein. Prior to the distribution, the State's reasonable costs of administering this program are deducted from the earnings.

### Earnings for 2002-03

Gross earnings for fiscal year 2002/03 totaled \$457,631,808. This represented a 2.17 percent yield for this investment program.

### Participation

As of June 30, 2003, there were 3,008 participants in the Local Agency Investment Fund consisting of 54 counties, 471 cities, 1,900 special districts, 324 trustees and 259 bond accounts. Deposits in the fund averaged \$21.118 billion for the year.

## The Year in Review

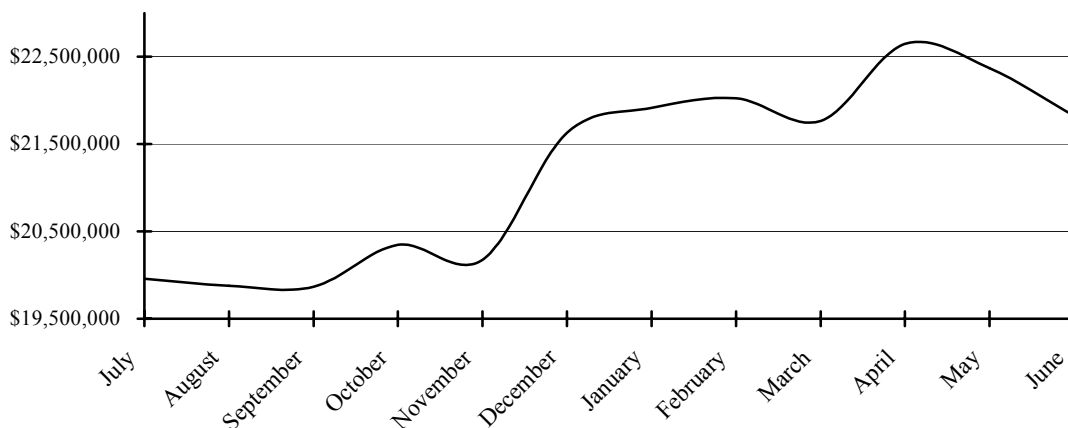
Resources.....	\$ 21.118	million per day on average
Earnings.....	\$ 457.6	million
Earning Rate.....	2.17	percent
Participation.....	3,008	Agencies or accounts at year-end.

The following table shows monthly resources of the Local Agency Investment Fund.

**Resources of  
The Local Agency Investment Fund  
2002-03 Fiscal Year (Month-End Balances)**

<b>Month</b>	<b>Total</b>
July 2002.....	\$19,958,171,554
August.....	19,876,662,663
September.....	19,867,939,903
October.....	20,345,248,379
November.....	20,174,805,918
December.....	21,629,345,576
January 2003.....	21,916,963,264
February.....	22,025,896,445
March.....	21,764,337,936
April.....	22,648,031,969
May.....	22,371,243,194
June.....	21,822,240,904

**Resources of the Local Agency Investment Fund  
2002-03 Fiscal Year (Month-End Balances)**  
(\$ In Thousands)



Source: State Treasurer's Office, Division of Investments (LAIF)

# Appendices

## Appendix A

# Pooled Money Investment Account Summary of Investments and Earnings (\$In Thousands)

Fiscal Year	Average Investment Portfolio	Earnings	Annual Earnings Rate (Percent)	Average Earning Rate (Percent)		
				5 Years	10 Years	15 years
1957-58	\$ 594,306	\$ 16,421	2.76			
1958-59	544,868	15,762	2.89			
1959-60	614,835	21,045	3.42			
1960-61	736,204	28,139	3.82	3.23		
1961-62	867,144	26,521	3.06	3.19		
1962-63	910,863	30,548	3.35	3.31		
1963-64	896,535	32,519	3.63	3.46		
1964-65	966,592	38,004	3.93	3.56		
1965-66	1,083,347	47,761	4.41	3.68	3.48	
1966-67	1,057,800	52,540	4.97	4.06	3.62	
1967-68	1,117,717	56,566	5.06	4.40	3.85	
1968-69	1,301,302	78,174	6.01	4.88	4.17	
1969-70	1,216,414	84,781	6.97	5.48	4.52	
1970-71	1,264,894	77,527	6.13	5.83	4.75	4.32
1971-72	1,397,494	68,350	4.89	5.81	4.93	4.35
1972-73	2,254,401	125,116	5.55	5.91	5.15	4.54
1973-74	2,594,629	232,780	8.97	6.50	5.69	4.94
1974-75	2,749,431	238,298	8.67	6.84	6.16	5.29
1975-76	3,209,143	204,303	6.37	6.89	6.36	5.46
1976-77	4,460,487	261,657	5.87	7.08	6.45	5.65
1977-78	6,843,940	458,625	6.70	7.31	6.61	5.87
1978-79	8,123,266	692,417	8.52	7.22	6.86	6.20
1979-80	8,285,941	873,469	10.54	7.60	7.22	6.64
1980-81	7,298,693	786,877	10.78	8.48	7.69	7.07
1981-82	5,234,524	631,968	12.07	9.72	8.40	7.54
1982-83	5,254,589	549,229	10.45	10.47	8.89	7.90
1983-84	7,094,849	738,462	10.41	10.85	9.04	8.19
1984-85	11,903,660	1,275,503	10.72	10.89	9.24	8.44
1985-86	15,438,406	1,401,990	9.08	10.55	9.51	8.64
1986-87	19,167,196	1,425,047	7.43	9.62	9.67	8.81
1987-88	17,628,558	1,388,074	7.87	9.10	9.79	8.96
1988-89	17,496,405	1,516,767	8.67	8.75	9.80	8.94
1989-90	19,558,775	1,692,905	8.66	8.34	9.61	8.94
1990-91	20,754,895	1,663,140	8.01	8.13	9.34	9.05
1991-92	21,456,433	1,329,476	6.20	7.88	8.75	9.07
1992-93	23,051,543	1,085,126	4.71	7.25	8.18	8.94
1993-94	25,433,078	1,115,660	4.39	6.39	7.57	8.67
1994-95	26,802,123	1,482,574	5.53	5.77	7.05	8.33
1995-96	26,623,196	1,519,020	5.71	5.31	6.72	7.99
1996-97	28,264,069	1,582,443	5.60	5.19	6.53	7.56
1997-98	29,344,512	1,672,382	5.70	5.38	6.32	7.25
1998-99	33,451,088	1,787,765	5.34	5.58	5.98	6.91
1999-00	35,029,034	1,999,483	5.71	5.61	5.69	6.57
2000-01	43,840,421	2,676,158	6.10	5.69	5.50	6.37
2001-02	49,827,077	1,716,545	3.45	5.26	5.22	6.11
2002-03	52,636,648	1,132,930	2.15	4.55	4.97	5.73

Source: The average investment portfolio, earnings and annual earnings rate were taken from the published *Annual Report o the Pooled Money Investment Board* for each fiscal year. Please see the following note.

## **NOTE TO PMIA SUMMARY OF INVESTMENTS AND EARNINGS TABLE**

The Pooled Money Investment Board was established as an agency of State government by Chapter 1703, Statutes of 1955, and became operational in April 1956. The 1956-57 fiscal year was the first full year for the Pooled Money Investment Account (PMIA). In 1957-58, the Surplus Money Investment Fund (SMIF) and the Condemnation Deposits Fund (CDF) were placed under the administration of the PMIB. Separate investment portfolios were managed for these two funds for a number of years. SMIF operated this way until the 1967-68 fiscal year, when legislation allowed this fund to be invested as a part of the PMIA. The CDF continued as a separate investment portfolio until 1975, when it also was combined with the PMIA. In order to make data for the early years in the table comparable to the later years (1975-76 and after), the average daily investment and the annual earnings for both SMIF and CDF were combined with those for the PMIA. The earning rates for these early years were computed using these combined figures.



## Appendix B

# HISTORICAL PMIA YIELDS

(Yield In Percent Per Annum)

			ALLOCATION RATE	
	MONTHLY	ANNUAL	LAIF	SMIF
DATE	AVERAGE	AVERAGE	QUARTERLY	SEMI-ANNUAL
Jan-77	5.77			
Feb-77	5.66			
Mar-77	5.66		5.68	
Apr-77	5.65			
May-77	5.76			
Jun-77	5.85	5.87	5.78	5.79
Jul-77	5.93			
Aug-77	6.05			
Sep-77	6.09		5.84	
Oct-77	6.39			
Nov-77	6.61			
Dec-77	6.73		6.45	6.18
Jan-78	6.92			
Feb-78	7.05			
Mar-78	7.14		6.97	
Apr-78	7.27			
May-78	7.39			
Jun-78	7.57	6.70	7.35	7.17
Jul-78	7.65			
Aug-78	7.82			
Sep-78	7.87		7.86	
Oct-78	8.11			
Nov-78	8.29			
Dec-78	8.77		8.32	8.09
Jan-79	8.78			
Feb-79	8.90			
Mar-79	8.82		8.81	
Apr-79	9.08			
May-79	9.05			
Jun-79	9.22	8.52	9.10	8.98
Jul-79	9.20			
Aug-79	9.53			
Sep-79	9.26		9.26	
Oct-79	9.81			
Nov-79	10.22			
Dec-79	10.22		10.06	9.66

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-80	10.98	10.54	11.11	11.38
Feb-80	11.25			
Mar-80	11.49			
Apr-80	11.48		11.54	11.38
May-80	12.02			
Jun-80	11.80			
Jul-80	10.21		10.01	10.21
Aug-80	9.87			
Sep-80	9.95			
Oct-80	10.06		10.47	10.21
Nov-80	10.43			
Dec-80	10.96			
Jan-81	10.99	10.78	11.23	11.69
Feb-81	11.69			
Mar-81	11.13			
Apr-81	11.48		11.68	11.69
May-81	12.18			
Jun-81	11.44			
Jul-81	12.35		12.40	12.19
Aug-81	12.84			
Sep-81	12.06			
Oct-81	12.40		11.91	12.19
Nov-81	11.89			
Dec-81	11.48			
Jan-82	11.68	12.07	11.82	11.93
Feb-82	12.04			
Mar-82	11.84			
Apr-82	11.77		11.99	11.93
May-82	12.27			
Jun-82	11.99			
Jul-82	12.24		11.74	11.26
Aug-82	11.91			
Sep-82	11.15			
Oct-82	11.11		10.71	11.26
Nov-82	10.70			
Dec-82	10.40			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
			LAIF	SMIF
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	QUARTERLY	SEMI-ANNUAL
Jan-83	10.25	10.45	9.87	9.98
Feb-83	9.89			
Mar-83	9.69			
Apr-83	9.87		10.04	10.15
May-83	9.53			
Jun-83	9.60			
Jul-83	9.88		10.32	10.63
Aug-83	10.08			
Sep-83	10.20			
Oct-83	10.18		11.53	11.44
Nov-83	10.16			
Dec-83	10.23			
Jan-84	10.31	10.41	10.88	10.19
Feb-84	10.28			
Mar-84	10.38			
Apr-84	10.59		9.54	9.50
May-84	10.84			
Jun-84	11.12			
Jul-84	11.36		11.41	11.44
Aug-84	11.56			
Sep-84	11.60			
Oct-84	11.68		10.32	10.19
Nov-84	11.47			
Dec-84	11.02			
Jan-85	10.58	10.72	9.98	10.19
Feb-85	10.29			
Mar-85	10.12			
Apr-85	10.03		9.43	9.50
May-85	10.18			
Jun-85	9.74			
Jul-85	9.66		9.54	9.50
Aug-85	9.42			
Sep-85	9.57			
Oct-85	9.48		9.43	9.50
Nov-85	9.49			
Dec-85	9.37			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-86	9.25	9.08	9.09	8.70
Feb-86	9.09			
Mar-86	8.96			
Apr-86	8.62		8.39	8.70
May-86	8.37			
Jun-86	8.23			
Jul-86	8.14		7.81	7.65
Aug-86	7.84			
Sep-86	7.51			
Oct-86	7.59		7.48	7.65
Nov-86	7.43			
Dec-86	7.44			
Jan-87	7.37	7.44	7.24	7.23
Feb-87	7.16			
Mar-87	7.21			
Apr-87	7.04		7.21	7.23
May-87	7.29			
Jun-87	7.29			
Jul-87	7.46		7.54	7.80
Aug-87	7.56			
Sep-87	7.71			
Oct-87	7.83		7.97	7.80
Nov-87	8.12			
Dec-87	8.07			
Jan-88	8.08	7.87	8.01	7.95
Feb-88	8.05			
Mar-88	7.95			
Apr-88	7.94		7.87	7.95
May-88	7.82			
Jun-88	7.93			
Jul-88	8.09		8.20	8.34
Aug-88	8.25			
Sep-88	8.34			
Oct-88	8.40		8.45	8.34
Nov-88	8.47			
Dec-88	8.56			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
			LAIF	SMIF
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	QUARTERLY	SEMI-ANNUAL
Jan-89	8.70	8.67	8.76	8.97
Feb-89	8.77			
Mar-89	8.87			
Apr-89	8.99			
May-89	9.23			
Jun-89	9.20			
Jul-89	9.06		8.87	8.78
Aug-89	8.83			
Sep-89	8.80			
Oct-89	8.77			
Nov-89	8.69			
Dec-89	8.65			
Jan-90	8.57	8.66	8.52	8.52
Feb-90	8.54			
Mar-90	8.51			
Apr-90	8.50			
May-90	8.53			
Jun-90	8.54			
Jul-90	8.52		8.39	8.34
Aug-90	8.38			
Sep-90	8.33			
Oct-90	8.32			
Nov-90	8.27			
Dec-90	8.28			
Jan-91	8.16	8.01	7.97	7.67
Feb-91	8.00			
Mar-91	7.78			
Apr-91	7.67			
May-91	7.37			
Jun-91	7.17			
Jul-91	7.10		7.00	6.74
Aug-91	7.07			
Sep-91	6.86			
Oct-91	6.72			
Nov-91	6.59			
Dec-91	6.32			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	ALLOCATION RATE	
			LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-92	6.12	6.20	5.87	5.65
Feb-92	5.86			
Mar-92	5.68			
Apr-92	5.69		5.45	5.65
May-92	5.38			
Jun-92	5.32			
Jul-92	5.24		4.97	4.82
Aug-92	4.96			
Sep-92	4.76			
Oct-92	4.73		4.67	4.82
Nov-92	4.66			
Dec-92	4.65			
Jan-93	4.68	4.71	4.64	4.61
Feb-93	4.65			
Mar-93	4.62			
Apr-93	4.61		4.51	4.61
May-93	4.43			
Jun-93	4.55			
Jul-93	4.44		4.44	4.39
Aug-93	4.47			
Sep-93	4.43			
Oct-93	4.38		4.36	4.39
Nov-93	4.37			
Dec-93	4.38			
Jan-94	4.36	4.39	4.25	4.36
Feb-94	4.18			
Mar-94	4.25			
Apr-94	4.33		4.45	4.36
May-94	4.43			
Jun-94	4.62			
Jul-94	4.82		4.96	5.15
Aug-94	4.99			
Sep-94	5.11			
Oct-94	5.24		5.37	5.15
Nov-94	5.38			
Dec-94	5.53			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
			LAIF	SMIF
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	QUARTERLY	SEMI-ANNUAL
Jan-95	5.61	5.53	5.76	5.87
Feb-95	5.78			
Mar-95	5.93			
Apr-95	5.96		5.98	
May-95	6.01			
Jun-95	6.00			
Jul-95	5.97		5.89	
Aug-95	5.91			
Sep-95	5.83			
Oct-95	5.78		5.76	
Nov-95	5.81			
Dec-95	5.75			
Jan-96	5.70	5.71	5.62	5.56
Feb-96	5.64			
Mar-96	5.56			
Apr-96	5.54		5.52	
May-96	5.50			
Jun-96	5.55			
Jul-96	5.59		5.57	
Aug-96	5.57			
Sep-96	5.60			
Oct-96	5.60		5.58	
Nov-96	5.60			
Dec-96	5.57			
Jan-97	5.58	5.59	5.56	5.59
Feb-97	5.58			
Mar-97	5.58			
Apr-97	5.61		5.63	
May-97	5.63			
Jun-97	5.67			
Jul-97	5.68		5.68	
Aug-97	5.69			
Sep-97	5.71			
Oct-97	5.71		5.71	
Nov-97	5.72			
Dec-97	5.74			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
			LAIF	SMIF
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	QUARTERLY	SEMI-ANNUAL
Jan-98	5.74	5.70	5.70	
Feb-98	5.72			
Mar-98	5.68			
Apr-98	5.67			
May-98	5.67			
Jun-98	5.67		5.66	5.67
Jul-98	5.65		5.64	
Aug-98	5.65			
Sep-98	5.64			
Oct-98	5.56			
Nov-98	5.49			
Dec-98	5.37		5.46	5.55
Jan-99	5.26	5.34	5.19	
Feb-99	5.21			
Mar-99	5.14			
Apr-99	5.12			
May-99	5.09			
Jun-99	5.09		5.08	5.13
Jul-99	5.18		5.21	
Aug-99	5.22			
Sep-99	5.27			
Oct-99	5.39			
Nov-99	5.48			
Dec-99	5.64		5.49	5.34
Jan-00	5.76	5.71	5.80	
Feb-00	5.82			
Mar-00	5.85			
Apr-00	6.01		6.18	5.99
May-00	6.19			
Jun-00	6.35			



# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jul-00	6.44	6.10	6.47	6.49
Aug-00	6.50			
Sep-00	6.50			
Oct-00	6.52		6.52	6.49
Nov-00	6.54			
Dec-00	6.53			
Jan-01	6.37		6.16	5.73
Feb-01	6.17			
Mar-01	5.98			
Apr-01	5.76		5.32	5.73
May-01	5.33			
Jun-01	4.96			
Jul-01	4.63	3.45	4.47	3.99
Aug-01	4.50			
Sep-01	4.29			
Oct-01	3.78		3.52	3.99
Nov-01	3.53			
Dec-01	3.26			
Jan-02	3.07		2.96	2.85
Feb-02	2.97			
Mar-02	2.86			
Apr-02	2.84		2.75	2.85
May-02	2.74			
Jun-02	2.69			
Jul-02	2.71	2.47	2.63	2.47
Aug-02	2.59			
Sep-02	2.60			
Oct-02	2.49		2.31	2.47
Nov-02	2.30			
Dec-02	2.20			

# HISTORICAL PMIA YIELDS (Continued)

(Yield In Percent Per Annum)

			ALLOCATION RATE	
DATE	MONTHLY AVERAGE	ANNUAL AVERAGE	LAIF QUARTERLY	SMIF SEMI-ANNUAL
Jan-03	2.10			
Feb-03	1.94			
Mar-03	1.90		1.98	
Apr-03	1.86			
May-03	1.77			
Jun-03	1.70	2.15	1.77	1.86

The State Treasurer's Office complies with the Americans With Disabilities Act (ADA). If you need additional information or assistance, please contact the State Treasurer's Pooled Money Investment Board at (916) 653-2917.

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